Grain Inspection,
Packers and Stockyards Administration
**Federal Grain Inspection Service**

# Evaluation of the Use of Contractors to Enhance the Delivery of Official Inspection and Weighing Services At Export Port Locations

March 2009

## Contents

# EXECUTIVE SUMMARY

The Grain Inspection, Packers and Stockyards Administration (GIPSA) provides independent, third-party services in the sole interest of facilitating the marketing of U.S. grain in domestic and international markets. Each year, the official inspection system inspects and weighs nearly 90 percent of the approximately $20 billion (average) of U.S. grain shipped to customers around the world. The mandatory inspection of U.S. grain exports benefits the entire grain marketing chain, from farm gate to export.

During the reauthorization of the United States Grain Standards Act (Act) in 2005, Congress communicated that GIPSA should explore use of its existing contract authority to use contractors to provide official inspection and weighing services in the export grain market. Congress further directed that this authority should be considered only if the action improves competitiveness of the U.S. grain industry, maintains the integrity of the Federal grain inspection system, and provides benefits to employees who may be impacted.

GIPSA has historically utilized contract labor to supplement its Federal workforce to provide official inspection and weighing services. For decades, GIPSA has augmented its Federal workforce with contract samplers to provide services under the Agricultural Marketing Act (AMA). Immediately upon reauthorization of the Act, GIPSA developed a program to evaluate the benefits, costs, and implications of using contractors at export port locations. The pilot study, which was conducted in fiscal years 2006 into 2009, focused on using contractors to: (1) provide supplemental labor at export locations serviced by GIPSA, and (2) provide full inspection and weighing services at export port locations.

GIPSA's pilot study focused on the use of contractors to provide both supplemental and direct service provision at export. In keeping with Congressional direction, GIPSA studied use of its existing contracting authority with the goals of improving the competitiveness of the U.S. grain industry, maintaining the integrity of the Federal grain inspection system, and providing benefits to employees who may be impacted. The pilot study included implementing contracts at export facilities in California, Illinois, Indiana, New York, Ohio, and Wisconsin.

Based on the findings of GIPSA's pilot study and other available information, GIPSA concludes that the use of contractors did not demonstrate additional savings or efficiencies that would enhance the competitiveness of U.S. grain exports in the global market.

GIPSA identified further challenges to the effective use of contractors, including:

- Contractors did not demonstrate that there is an adequately skilled workforce available to them to perform export inspection and weighing services. Contractors would be challenged to hire and maintain an adequately skilled workforce to meet long- and short-term service demands. Contractors are not currently positioned to provide fully trained staff who can perform the services currently performed by GIPSA staff. Certification and weighing of grain at export facilities require skills not normally found in the labor force. GIPSA invests a minimum of 2 years of training before employees are allowed to grade and weigh grain at export facilities.

- Shifting to contractors at export would remove the GIPSA service-provision safety net. GIPSA would be challenged to fulfill its legal mandate to provide services if a contractor could not because GIPSA's workforce staffing levels would decrease and competencies would shift from inspection to oversight expertise. Thus, GIPSA would be put into a position in which it would not have sufficient staff to provide export services, thereby allowing for potential service disruptions.

The information gathered during the pilot program does not support significant changes to GIPSA's use of contract labor.

# BACKGROUND

## 2005 Legislative Reauthorization of the United States Grain Standards Act

On September 30, 2005, key sections of the Act, the authorizing legislation of GIPSA's Federal Grain Inspection Service (FGIS), were scheduled to expire. The Act required legislative reauthorization for FGIS to continue operating.

In May 2005, Congress held hearings on the reauthorization of the Act and heard testimony from United States Department of Agriculture officials and GIPSA stakeholders. During the legislative reauthorization process, various industry representatives testified before Congress in support of replacing Federal employees with private companies operating under Federal supervision to provide mandatory export grain inspection service. At that time and currently, GIPSA employees provide mandatory inspection and weighing services for 73 percent of the grain exported by vessel from the United States. State departments of agriculture that are delegated authority by GIPSA provide services for the remaining 27 percent of the grain exported by vessel. (Grain exported via land carrier to Mexico and Canada from interior locations is inspected on a voluntary basis either by State or private laboratories that are authorized by GIPSA.)

A representative of a grain exporting company testified on behalf of the National Grain and Feed Association (NGFA) and the North American Export Grain Association (NAEGA) in support of amending the Act to allow GIPSA to delegate independent, third-party inspection agencies to perform official inspection at export facilities under 100 percent GIPSA oversight using GIPSA-approved standards and procedures. He testified that such a change "… would enhance the cost-competitiveness and viability of U.S. bulk exports."

The president of the American Association of Grain Inspection and Weighing Agencies (AAGIWA), the association representing a portion of the State and private entities authorized by GIPSA to weigh, inspect, and grade the Nation's domestic grain, also testified in support of the industry recommendation.

A representative testified on behalf of producer groups, including the American Farm Bureau Federation, American Soybean Association, National Association of Wheat Growers, the National Grain Sorghum Producers, and the National Corn Growers Association, in support of reauthorization and privatization of export inspection provision to improve cost-competitiveness.

The testimony in support of privatizing exporting grain inspection service provision included calls for direct Federal oversight of private inspection entities to maintain international buyers' confidence in the USDA export certificate. Stakeholders testified that the change from Federal to contract employees would increase the cost-competitiveness of U.S. bulk grain exports.

On September 28, 2005, Congress reauthorized the Act without amendment for 10 years, through 2015.

While the issue of privatization of services at export port locations was not specifically addressed in the reauthorized legislation, Congress clearly communicated that GIPSA should explore use of its existing contract authority.  (Attachment 1)

**GIPSA's Authority and Use of Contractors**

For decades, GIPSA has used contract samplers under the authority of the AMA.  These contractors supplement the field office workforce and are typically used to sample and weigh processed products, pulses, and rice at remote locations.  Use of contract samplers allows GIPSA to minimize operating costs at field offices.  Contractors are paid on an "as-needed" basis and are typically lower in cost than full-time or intermittent employees.  In addition, travel expenses are minimized because contractors are hired to work in their local commuting area.  The use of contractors in the AMA program improves the cost effectiveness of GIPSA; however, the contractors do not replace GIPSA employees but complement the permanent staff of the field office.

Under the Act, GIPSA is authorized to contract with private persons or entities to perform inspection and weighing services at export port locations (7 U.S.C. §§ 79(e)(I), 84(a)(3)).  Under 7 USC 79(e)(I), the Secretary shall cause official inspection at export port locations, for all grain required or authorized to be inspected by this chapter, to be performed by official inspection personnel employed by the Secretary or other persons under contract with the Secretary as provided in section 84 of this title.  Section 84 authorizes the Secretary to contract with any person or governmental agency to perform specified sampling, laboratory testing, inspection, weighing, and similar technical functions and to license competent persons to perform such functions pursuant to such contract.

In accordance with Congressional direction, GIPSA set out specifically to assess whether the use of contractors to provide official services at export locations would improve the competitiveness of the U.S. grain industry, maintain the integrity of the Federal grain inspection system, and benefit employees who may be impacted.

## OVERVIEW OF CONTRACT PILOT PROGRAMS

Immediately upon reauthorization of the Act, in the fall of 2005, GIPSA began developing a program to evaluate the benefits, costs, and implications of using contractors at export port locations.  GIPSA developed a framework under which the Agency would contract with a person (defined as any individual, partnership, corporation, association, or other business entity) to provide mandatory export inspection and weighing services with the strategic goal of assessing the impact of contracting on the cost effectiveness of service delivery while maintaining the integrity and credibility of the official inspection and weighing program.  The assessment focused on using contractors:  (1) to provide supplemental labor at export locations serviced by GIPSA, and (2) to provide full inspection and weighing services at export locations.

## Supplemental Labor Contract

GIPSA implemented supplemental labor contracts to assess the cost of labor for contract employees versus the cost of hiring intermittent employees to augment the Federal workforce at export locations. GIPSA hires intermittent employees on a temporary, as-needed basis to meet irregular or seasonal staffing needs. Intermittent employees receive no Federal employee benefits other than employer contributions towards the Federal Insurance Contributions Act (FICA) tax.

In light of projected attrition of GIPSA employees due to retirements, GIPSA identified service areas wherein supplemental labor contracts could be implemented and evaluated without disrupting the export market, and where the contracting activity might effectively supplement GIPSA's workforce.

GIPSA implemented a supplemental labor contract in South Texas, an area serviced by the GIPSA Corpus Christi, Texas, office. The field office's small staff provides export inspection services at two export grain facilities in Corpus Christi and at one in Brownsville, Texas. The office needed supplemental labor during peak workload.

Typically, the office used intermittent employees who worked on a part-time basis and were called to work when service volume required additional staff to meet workload demands. The intermittent employees worked as agricultural commodity technicians and were trained to weigh grain for export, collect samples for export ships, and process samples for inspection and analytical functions. Technicians provide basic analytical services such as checking for insects during loading, test weight analysis, moisture analysis, and mycotoxin analysis. Full-time GIPSA inspectors completed the actual inspections.

GIPSA's solicitation for a contract for labor in South Texas (Attachment 2) included a statement of work describing the work requirements, conditions for service, and the responsibilities of both the contractor and GIPSA. Under the supplemental labor contract, GIPSA paid the contractor a fee for individuals who worked on an as-needed, intermittent basis. GIPSA provided the same training to the contracted individuals as was given to GIPSA employees conducting similar duties.

The contractors carried out sampling, weighing, and stowage examinations with GIPSA employees in accordance with the Act (7 U.S.C. 71 *et seq*.), regulations (7 CFR Parts 800, 801, 802, 810, 868), instructions, methods, and policies and procedures.

The contractor was responsible for providing qualified personnel to help GIPSA, upon request, provide export grain inspection and weighing services at export port locations in accordance with the Act, regulations, U.S. Standards for Grain, instructions, and the policies and procedures established under the authority of the Act. (For specific requirements, see Attachment 2.)

The contractor also established a primary liaison contact with GIPSA to facilitate the assignment of contract personnel when GIPSA needed contract staff to perform export inspection and weighing activities for waterborne carriers. GIPSA requested the services from the contractor liaison and the contractor charged GIPSA for their service time according to the fee established in the contract.

**Full-Service Contract**

During the reauthorization process, grain exporters testified that using contractors to provide mandatory inspection and weighing services would improve the cost effectiveness of services in export markets and, in turn, make U.S. grain more competitive in the global market. Exporters also testified to the need to maintain the integrity of the export services by onsite oversight of contractors by Federal inspectors.

The full-service contracting process differed from the supplemental labor contract process. Under the supplemental labor pilot, GIPSA contracted for labor and was the direct user of contractor services. Under the full-service contracting process, GIPSA solicited companies interested in providing inspection and weighing services to the exporters; selected qualified contractors; and established a catalog of qualified and acceptable contractors who were authorized to compete for services in a specified export market. Each selected contractor then met with a potential applicant for service (a grain export company) and presented a service package, including fees for services, to the exporter for consideration. The export grain company then selected a service provider from the approved list of contractors based on the contractor’s service package and associated service fees. The selected contractor began providing services after an agreement was signed between the contractor and the export grain company. Some export grain companies, however, decided not to use a contractor for service but retained GIPSA as their service provider.

GIPSA implemented the third-party contracts for export services in several key markets. Capitalizing on an immediate opportunity, GIPSA instituted a full-service contract at export facilities in the States of California and Wisconsin, two geographic areas wherein the delegated States had recently relinquished their export service operations and official service providers were needed.

GIPSA then established full-service contracts at export facilities in the Toledo, Ohio, field office circuit. These facilities were located in Chicago, Illinois; Portage, Indiana; Toledo and Huron, Ohio; and Albany, New York. This is a small but steady export market that GIPSA serviced with a small staff of full-time inspectors and numerous intermittent technicians, as needed. Exploring the use of contractors to provide export services in this market allowed GIPSA to evaluate contract service provisions with minimal impact on full-time staff. It also allowed contractors to enter into a full-service contract that required only a moderately sized staff to provide the services.

GIPSA published in the Federal Business Opportunities website (the clearinghouse for Federal government contracts) an announcement of the contract for full-service export inspection and weighing services in the selected areas, including a statement of work describing the activity in these areas. The statement of work identified the conditions for service and outlined the responsibilities of the contractor and GIPSA (Attachment 3).

The contractor's personnel were required to perform all grain sampling and weighing related services in accordance with the Act (7 U.S.C. 71 *et seq.*), regulations (7 CFR Parts 800, 801, 802, 810, 868), instructions, methods, policies, and procedures. These services fell into the broad categories of sampling, inspection, weighing, and conducting stowage examinations. The contractor was not allowed to perform unofficial functions or services on the basis of unofficial standards, procedures, factors, or criteria at facilities at which it provided official services. The contractor also was required to designate a representative to serve as "Export Inspection Manager," who was responsible for notifying and coordinating all export inspection and weighing activities conducted under the contract with the onsite GIPSA supervisor.

GIPSA was responsible for interpreting standards and specifications; determining appropriate inspection methods and techniques; developing inspection guidelines, instructions, handbooks, and training aids; and providing oversight of contractors' service provisions.

## DETAILED FINDINGS OF CONTRACT STUDIES

### Corpus Christi Supplemental Labor Contract

On September 5, 2006, GIPSA's contracting office issued a Request for Proposal (RFP) to solicit potential contractors to provide , upon request, qualified personnel (samplers, technicians, and weighers) to supplement the GIPSA workforce that provides mandatory inspection and weighing services for waterborne carriers in the Corpus Christi, Texas, area. The solicitation closed on October 5, 2006.

One company responded to the solicitation. The company, already a GIPSA-designated agency operating in the South Texas area, proposed charging $30 per hour per person, more than double the cost GIPSA paid for the salary and benefits of an intermittent employee, to fill the same position. GIPSA rejected the offer. After discussions with the sole potential contractor, the contractor submitted a second proposal of $18 per hour per person. Although this amount still exceeded GIPSA's costs for the salaries and benefits of intermittent employees to fill the same positions by 20 to 40 percent (based on the potential grade level of intermittent employees), GIPSA accepted the offer with the goal of instituting the supplemental labor contracting study.

Before fully implementing the contract, the contractor unilaterally withdrew from the contract because they projected losing money at the $18 per hour rate.

In March 2007, another potential contractor approached GIPSA to express interest in providing labor in the Corpus Christi area. In response to this interest, on April 3, 2007, GIPSA's contracting office issued a second, identical RFP to solicit potential contractors for service. The solicitation closed on May 3, 2007.

One offer was made in response to the April 2007 solicitation. The respondent was not, however, the second contractor who expressed interest, but was the original contractor seeking another opportunity to provide supplemental labor at the $18 per hour level. GIPSA, interested in furthering the opportunity to evaluate the use of contracts in this market, signed a contract on May 30, 2007. The contractor did not express an interest in continuing the contract after the first year because, again, the contractor did not cover their operating costs under the contract rate of $18 per hour.

GIPSA's findings from the supplemental labor contract study indicate that hiring intermittent employees is more cost-effective than contracting for part-time supplemental labor in South Texas. Intermittent employees cost GIPSA between $12 and $15 per hour. This cost includes salary and payroll tax paid by GIPSA. The sole contractor could not recover their operating costs at $18 per hour.

**California Full-Service Contract**

On March 22, 2006, GIPSA's contracting office issued an RFP to solicit potential contractors to provide complete inspection and weighing services at two export facilities in California. Both of these facilities exported low volumes of grain sporadically. The solicitation closed on April 21, 2006.

As noted earlier, the two California facilities were selected for the contracting pilot because the State of California had recently ceased providing official inspection and weighing services and any service requests would have to be met by GIPSA's Portland Field Office. This would involve costly travel for the GIPSA inspection and weighing crew. To provide service, GIPSA would charge travel time for all servicing employees and the elevator would pay fees at the non-contract rate.

One company, the designated agency that replaced the State of California's domestic inspection and weighing program, submitted a proposal in response to the March 22, 2006, RFP for the export services in California. Despite limited export inspection and weighing experience, the company was selected and a contract was effected May 5, 2006. GIPSA determined that if export services were needed in this low volume and sporadic market, a GIPSA employee would coach the contractor's personnel through the entire inspection and weighing processes. A single GIPSA employee overseeing the contractors would be less costly than an entire GIPSA crew providing the service.

GIPSA worked closely with the approved contractor to develop a service agreement to provide services for the export facilities in California. Since implementing the export contract service agreement in California on May 5, 2006, there has not been any export activity to measure the performance of the contractor, who remains available if services are required.

**Milwaukee Full-Service Contract**

On March 22, 2006, GIPSA's contracting office issued an RFP to solicit potential contractors to provide full inspection and weighing services at one export facility in Milwaukee, Wisconsin. The solicitation closed on April 22, 2006.

The facility in Milwaukee offered an excellent opportunity for contract evaluation; the State of Wisconsin recently withdrew their delegation authority for this port location and no longer provided official inspection and weighing services at this location. (The State of Wisconsin retained their delegation authority for the Port of Superior.) This left GIPSA, without staff located in Milwaukee, responsible for providing service at this seasonally active facility. To meet service needs, GIPSA employees in Chicago and Toledo traveled to Milwaukee to provide export services on waterborne carriers until a contract could be effected.

Three companies submitted proposals in response to the March 22, 2006, RFP for export inspection and weighing service provision at the Milwaukee export facility. All three companies were also designated agencies with varying degrees of experience. The proposal was announced as a small-business opportunity in accordance with USDA contracting guidelines. This disqualified one of the agencies because it did not fit the definition of a small business. To attract a larger pool of contracting candidates, GIPSA determined that future contract proposals would not be announced as exclusively "small business" opportunities.

The two remaining companies were approved by GIPSA and awarded contracts on May 8, 2006. After receiving their contracts from GIPSA, the two companies were eligible to meet with the export grain company to negotiate service contract agreements. The GIPSA Toledo field office facilitated meetings and encouraged the establishment of timely export service agreements between the contractors and the export company as the shipping season began. In May 2006, the export grain company selected and signed an agreement with one of the contractors.

The selected contractor was staffed by former Wisconsin State employees who brought strong experience in export inspection and weighing services to the company. The former State employees had worked for many years in Milwaukee, and were well aware of the responsibilities of export inspectors and weighers. The contractor also fully invested in all equipment needed for their inspection laboratory.

Since implementing the contract service agreement in Milwaukee, the contractor has provided service to 55 lots, representing 877,940 metric tons of export grain.

| Summary of Milwaukee Export Activity | | |
|---|---|---|
| **Shipping Year** | **Number of Lots** | **Volume ( Metric Tons)** |
| 2006 | 25 | 413,653 |
| 2007 | 23 | 335,849 |
| 2008 | 7 | 128,437 |
| **TOTAL** | **55** | **877,939** |

The Toledo field office oversees the export activities in Milwaukee. GIPSA employees from the Chicago, Toledo, Cedar Rapids, or other available GIPSA offices, as needed, provided onsite oversight during export loading activities. Milwaukee is approximately a 2-hour drive from Chicago. The Toledo field office collected service fee information to compare the contractor's fees (including GIPSA oversight costs) to GIPSA's fees. In this case, the contractor's fees were compared to the cost of GIPSA personnel from Chicago providing services.

Pilot study data indicates the direct cost to the applicant for service by the contractor over the 3-year contracting period was $0.63 per metric ton. This includes $0.45 per metric ton for the contractor's fees, $0.13 per ton for GIPSA direct oversight, and $0.05 per ton for travel expenses to provide the GIPSA onsite oversight individual during export loadings.

| Milwaukee Fees for Direct Services From Contractor During Pilot Project | | | | |
|---|---|---|---|---|
| **Shipping Season** | **2006** | **2007** | **2008** | **2006-2008** |
| **Metric tons total** | 413,653.009 | 335,849.218 | 128,437.417 | 877,939.644 |
| **Contractor's Fees** | $227,525.75 | $123,162.85 | $44,716.50 | $395,405.10 |
| **Cost per metric ton** | 0.55 | 0.37 | 0.35 | 0.45 |
| **Onsite Oversight Fees** | $58,592.00 | $42,192.00 | $14,560.00 | $115,344.00 |
| **Cost per metric ton** | 0.14 | 0.13 | 0.11 | 0.13 |
| **GIPSA Travel Expenses** | $17,628.23 | $16,455.79 | $8,774.17 | $42,858.19 |
| **Cost per metric ton** | 0.04 | 0.05 | 0.07 | 0.05 |
| **TOTAL DIRECT SERVICE COSTS** | $303,745.98 | $181,810.64 | $68,050.67 | $553,607.29 |
| **Cost per metric ton** | 0.73 | 0.54 | 0.53 | 0.63 |

GIPSA also calculated the cost of the same export services as if they had been provided by GIPSA staff from Chicago and Toledo. The service fees included non-contract hourly rates plus any applicable unit rates. Travel expenses included travel time at the non-contract rate plus any additional charges for hotel or per diem allowances. Under this scenario, there is not any oversight fee since the work is performed by GIPSA employees. The direct service rates for GIPSA services over the same period would have equaled $0.92 per metric ton: $0.63 per metric ton for direct services and $0.29 per metric ton for travel expenses.

| **Milwaukee Fees for Direct Services from GIPSA Toledo Field Office During Pilot Project** | | | | |
|---|---|---|---|---|
| **Shipping Season** | **2006** | **2007** | **2008** | **2006-2008** |
| **Metric tons total** | 413,653.009 | 335,849.218 | 128,437.417 | 877,939.644 |
| **GIPSA Toledo Fees** | $275,271.50 | $208,593.75 | $73,100.50 | $556,965.75 |
| **Cost per metric ton** | 0.67 | 0.62 | 0.57 | 0.63 |
| **GIPSA Travel Expenses** | $118,906.36 | $91,706.17 | $40,858.85 | $251,471.38 |
| **Cost per metric ton** | 0.29 | 0.27 | 0.32 | 0.29 |
| **TOTAL DIRECT SERVICE COSTS** | $394,177.86 | $300,299.92 | $113,959.35 | $808,437.13 |
| **Cost per metric ton** | 0.95 | 0.89 | 0.89 | 0.92 |

GIPSA also assessed the costs of direct service of stationing two permanent GIPSA employees in Milwaukee operating under the GIPSA contract rate ($36 per hour per employee) to provide daily service to the export grain company. Under this scenario, there would not be any travel expenses and GIPSA would use both permanent and local intermittent employees to provide service. The scenario represents the method under which the Toledo field office typically operates in a seasonal export market. Under this scenario, the cost to the exporter for GIPSA's services is $0.53 per metric ton.

| **Milwaukee Fees for Direct Services from Local GIPSA Staff During Pilot Project** | | | | |
|---|---|---|---|---|
| **Shipping Season** | **2006** | **2007** | **2008** | **2006-2008** |
| **Metric tons total** | 413,653.009 | 335,849.218 | 76,886.707 | 826,388.934 |
| **GIPSA Toledo Fees** | $235,141.50 | $169,063.75 | $60,586.50 | $464,791.75 |
| **Cost per metric ton** | 0.57 | 0.50 | 0.47 | 0.53 |

GIPSA also reviewed the contractor's financial information to determine whether the contractor's fees covered expenses or were artificially lowered to contain contract costs. In 2006, the first year of the contract and a year of exceptionally high U.S. export volume, the contractor reported a profit for the year. In 2007 and 2008, the contractor reported a loss. The financial success of a contractor depends on the volume of grain exported from the facility. If exports remain steady and revenue declines continue, it is fair to assume that the contractor would increase its fees for service to cover its operating expenses.

**Toledo Market Full-Service Contract**

On July 25, 2006, GIPSA's contracting office issued two separate RFPs to solicit potential full-service contractors for export facilities served by GIPSA's Chicago office – one in Chicago, the other in Portage, Indiana. The facilities are within proximity of each other, making both accessible to a single service provider.

On August 24, 2006, a second RFP sought service providers for export facilities in Toledo: one facility in Huron, Ohio, and one facility in Albany, New York. (The Huron facility has since closed.) GIPSA initially announced these as small business opportunities, but, in light of receiving only one response for each RFP, reannounced the RFP on September 8, 2006, to allow all businesses to compete. The RFPs closed on October 10, 2006.

Two companies applied for the Chicago-Portage area and three for the Toledo-Huron-Albany markets. GIPSA reviewed the applications and approved all solicitors, making them eligible to compete to provide service beginning November 20, 2006. Since this approval came at the height of the shipping season, GIPSA continued servicing the industry until January 2007 to allow exporters in the Great Lakes to continue to ship without service disruption and give the approved contractors time to meet with the export facilities and establish service packages and fees for service.

Building on lessons learned in the Milwaukee contracting process, GIPSA facilitated a December 2006 meeting with contractors and the export facility managers to help all parties gain an understanding of the contracting process and discuss services. After this meeting, GIPSA encouraged contractors to meet independently with the export managers and begin negotiating service agreement contracts.

Only one contractor signed a service provision agreement in the Toledo area. The export elevators in Albany, Chicago, and Portage decided to remain with GIPSA services instead of using an approved contractor. Consequently, GIPSA continued to provide services at those locations.

The contractor who successfully negotiated agreements with Toledo exporters was affiliated with a GIPSA-designated agency in South Texas and financially supported by an international company. Although the contractor did not have qualified staff at the time of the RFP, it quickly hired from the GIPSA Toledo field office a novice employee as their operations manager and intermittent employees previously employed by the office. The contractor also set up a "bare bones" operation using GIPSA-owned equipment in the export inspection labs. The contractor's total investment in this venture was very limited and included technical personnel and office space.

It was clear during the first year of the study that the contractor's employees would require some on-the-job training since their knowledge of export activities was limited. During the 2007 shipping season, GIPSA worked closely with the contractor to ensure work was completed accurately. While loading vessels was a primary task, the contractor also provided inspection and weighing services for railcar shipments. During vessel loading, GIPSA's onsite supervisor served as the expert on the Cu-Sum (uniform shiploading) Plan and a teacher for the contractors new to the export process. Essentially, the 2007 shipping season was a learning process for the contractor. The onsite GIPSA supervisor was critical to the success of the contractor. GIPSA's Toledo field office administrative staff also provided extensive assistance in certifying inspection and weighing results (issuing certificates) to ensure export cargo shipments were certified without delay.

At the beginning of the 2007 shipping season, the export grain company in Chicago, which also owns the Milwaukee facility, expressed an interest in having the two facilities serviced by the same contractor. GIPSA responded by announcing another RFP that combined the Milwaukee and the Chicago export elevators into a single service area. This RFP was announced on March 20, 2007, and closed on April 19, 2007. Three companies applied and were approved on May 16, 2007. The Chicago export facility did not select a contractor but opted to remain with services from the local GIPSA office because the export company was satisfied with the GIPSA services.

On August 1, 2007, the contractor providing services in Toledo also negotiated a contract service agreement in Portage, Indiana. While one contractor provided services in Toledo and Portage, GIPSA continued to provide inspection and weighing services to the export facilities in Albany and Chicago.

Since 2007, the single contractor servicing Toledo and Portage provided service on 106 export lots, representing 1,957,538 metric tons of grain.

| **Summary of Toledo-Portage Market Export Activity** | | |
|---|---|---|
| **Shipping Year** | **Number of Lots** | **Volume ( Metric Tons)** |
| 2007 | 74 | 1,412,357 |
| 2008 | 32 | 545,181 |
| **TOTAL** | **106** | **1,957,538** |

The Toledo field office collected service fee information to compare contractors' fees (including GIPSA oversight costs) to GIPSA's fees (the cost of GIPSA personnel providing local services in Portage and Toledo). The contractors' direct cost to the applicant for service over the 2-year contracting activity was $0.39 per metric ton. This total is comprised of $0.29 per metric ton for the contractor's fees and $0.10 per ton for the direct oversight by a GIPSA employee.

| **Toledo Market for Direct Services From Contractor During Pilot Project** | | | |
|---|---|---|---|
| **Shipping Season** | **2007** | **2008** | **2007-2008** |
| **Metric tons total** | 1,412,356.873 | 545,180.679 | 1,957,537.552 |
| **Contractor's Fees** | $403,325.44 | $166,875.50 | $570,200.94 |
| **Cost per metric ton** | 0.29 | 0.31 | 0.29 |
| **Onsite Oversight Fees** | $143,744.00 | $54,064.00 | $197,808.00 |
| **Cost per metric ton** | 0.10 | 0.10 | 0.10 |
| **TOTAL DIRECT SERVICE COSTS** | $547,069.44 | $220,939.50 | $768,008.94 |
| **Cost per metric ton** | 0.39 | 0.41 | 0.39 |

GIPSA also calculated the cost of GIPSA providing identical services. Local GIPSA staff would provide service under contract and non-contract hourly rates, when applicable, plus any applicable unit rates, with no oversight fee since the work is performed by GIPSA employees. The direct service rates for GIPSA's services over the same period would have equaled $0.45 per metric ton. The following table illustrates the details for each year.

| **Toledo Market Fees for Direct Services from Local GIPSA During Pilot Project** | | | |
|---|---|---|---|
| **Shipping Season** | **2007** | **2008** | **2007-2008** |
| **Metric tons total** | 1,412,356.873 | 545,180.679 | 1,957,537.552 |
| **GIPSA Toledo Fees** | $654,231.75 | $221,207.25 | $875,439.00 |
| **Cost per metric ton** | 0.46 | 0.41 | 0.45 |

The 2 years of fee comparisons during the study indicates the contractor's rates average approximately $0.06 per metric ton, or 13 percent, lower than GIPSA's service fees.

GIPSA reviewed the contractor's financial information regarding their activities in Toledo and Portage to determine if the contractor's fees reflected expenses within the market. GIPSA found that the contractor reported a minimal profit during the first year of contract service (2007), which was a very active year for grain exports. In 2008 and to date in 2009, exports have declined, and the contractor is reporting a loss. The financial success of a contractor depends directly on the volume of grain moving through the market. If the loss in revenue continues in this market, the contractor likely will have to increase fees for service or continue to sustain losses.

## DIRECT AND INDIRECT COST IMPACTS

GIPSA provides national export inspection and weighing services for approximately $0.37 per metric ton. For a cost of $36 per hour, the grain industry receives inspection and weighing services from highly trained, professional experts on approximately $20 billion (average) of grain exports each year. The cost of GIPSA's services to the export grain industry equates to 0.10 percent of the total value of annual U.S. grain exports.

### Direct Service Costs

Direct costs include the salaries and benefits of staff required to sample, weigh, and inspect grain, and the equipment needed to provide these services. GIPSA covers the direct cost of service delivery via established hourly rates and unit fees.

The supplemental labor pilot found that the cost of contract technicians and samplers exceeded the costs for Federal staff in these positions by $3 to $6 per hour for samplers, technicians, and weighers.

The export service pilot study appeared to provide opportunities for cost savings to customers in some instances. In Milwaukee, the overall cost to the exporter over the pilot period was $0.63 per metric ton: $0.45 per metric ton for contractor service delivery and $0.18 for GIPSA oversight. GIPSA's estimated direct service cost at this location is $0.53 per metric ton. In Toledo, the overall cost to the exporter over the pilot period was $0.39 per metric ton. The contractor's expense was $0.29 per metric ton, and the GIPSA oversight expense was $0.10 per metric ton. GIPSA's cost to the exporter would have been $0.45 per metric ton. However, the contractor in Toledo, unlike the contractor in Milwaukee, did not have any initial capital investment in inspection equipment because they used the GIPSA equipment already in place at the export inspection labs. Onsite GIPSA oversight adds an additional cost to the inspection and weighing process for export vessels, but this oversight ensures the inspection and weighing procedures are followed and that official inspection certificates remain accurate and credible.

The pilot also was designed to assess whether contractors would capitalize on the opportunity to expand the services they provided to the grain export companies by providing service on in-bound or nonexport grain. Contractors were unsuccessful in expanding services to derive greater efficiencies.

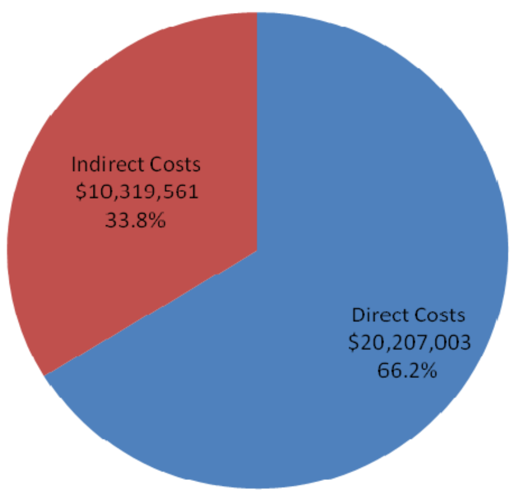
As with GIPSA, contractors' financial viability depends directly on the volume of grain moving through their market. Based on the contractors' reported financial status, grain inspection volume decreases would likely result in fee increases to cover their costs. GIPSA is positioned to absorb market fluctuations due to maintenance of an operating reserve fund. GIPSA adjusts fees based on long-term analyses of market conditions and GIPSA's financial status. These infrequent fee adjustments are implemented through a comprehensive public rulemaking process. GIPSA's last inspection and weighing fee increase was effective in June 2004.

**Indirect Service Costs**

During the reauthorization process, proponents of contracting contended that the use of contractors to provide export services would significantly reduce GIPSA's indirect service (overhead) costs.

GIPSA receives revenue via tonnage fees to cover indirect costs, which include both local and national expenses that support the service delivery of the field office. Indirect costs are supported by all of GIPSA's programs (grain inspection and weighing is one program) based on the nature of the expense.

The total cost of the grain inspection and weighing program in fiscal year 2007 was approximately $30.5 million: $20.2 million (66 percent) were direct service costs and $10.3 million (34 percent) were indirect service costs.

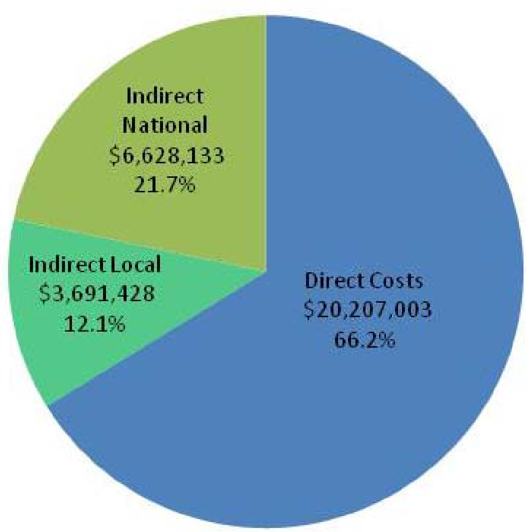



Grain Program Costs, Fiscal Year 2007

The indirect costs include local operating expenses of the field office (rent, utilities, and office supplies) and field office staffing costs not involved in direct service activity (local field office management and field office administrative staff). Since the primary function of export field offices is to deliver mandatory export inspection and weighing services, most of the field office's indirect expenses are funded by the grain inspection and weighing program. Management and administrative costs are also funded by other program funds – e.g., rice services, AMA commodity services, oversight of official agencies, and activities funded by appropriations (compliance, standardization, and methods development) – based on the local activities within the field office.

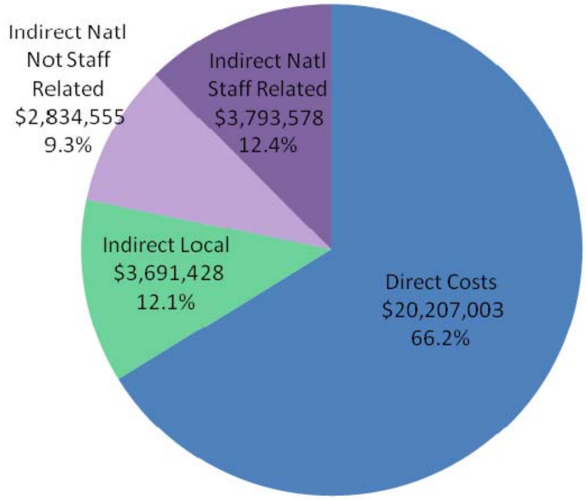
Likewise, indirect expenses at the national level are funded by various GIPSA programs based on the segment of GIPSA that the activity supports. Generally, these costs are distributed based on the number of staff years within the programs. However, some costs are distributed based on work volume or upon other metrics related to the activity. Indirect national expenses include GIPSA policy and program support staffs (Administrator's office and reporting staffs [Budget and Planning Staff, Civil Rights Staff, Information Technology Staff, and Management Support Staff], Deputy Administrators' offices and staffs, and Division Directors' offices and staffs). They also include the automated systems that run GIPSA's business applications, including the program that delivers official inspection certificates. Other indirect national expenses include GIPSA payment for mandatory Departmental programs and activities (Attachment 4), and funding paid to other USDA agencies that provide direct support resources to GIPSA through reimbursable agreements.

Local field office indirect expenses account for approximately $3.7 million, or 12 percent, of the total grain inspection and weighing program's expenses; national indirect expenses account for approximately $6.6 million, or 22 percent of the total expenses.




Direct and Indirect Grain Program Costs, Fiscal Year 2007

Some indirect costs are charged to, or distributed among, GIPSA programs based on staff years within each program. Approximately $3.8 million, or 12 percent, of the total cost of the national grain inspection and weighing program is potentially impacted by staffing levels.




Staff-Related Grain Program Costs, Fiscal Year 2007

The $3.8 million of indirect staff-related costs represents approximately $0.050 per metric ton of grain certified for export. In FY 2007, GIPSA inspected 76.5 million metric tons of export grain valued at approximately $24.2 billion. Based on the total value of grain exports, the potential maximum indirect staff-related cost is approximately 0.016 percent of the total value of all grain exports.

**2007 GIPSA Grain Inspection/Weighing Program**

- **Volume = 76.5 million metric tons**
- **Value = $24.2 billion**

| Grain Inspection and Weighing Program | Operation Cost | Cost/Metric Ton | % of Value |
|---|---|---|---|
| **TOTAL** | $ 30,526,564 | $ 0.399287 | 0.12621% |
| **DIRECT SERVICE** | $ 20,207,003 | $ 0.264307 | 0.08355% |
| **INDIRECT SERVICE** | $ 10,319,561 | $ 0.13498 | 0.04267% |
| *Local* | *$ 3,691,428* | *$ 0.048284* | *0.01526%* |
| *National Not Staff Related* | *$ 2,834,555* | *$ 0.037076* | *0.01172%* |
| *National Staff Related* | *$ 3,793,578* | *$ 0.049620* | *0.01568%* |

GIPSA retained a private management consulting firm to analyze and assess the potential impact of contracting on GIPSA indirect costs. Specifically, the firm built a model that assessed the impact of reduced Federal staffing levels on indirect costs. The company considered the extreme scenario wherein Federal employees would be retained at export facilities only to provide direct oversight of contract workers, as occurred in the pilot project, at the Milwaukee and Toledo markets.

Under this scenario, GIPSA staffing levels would be reduced by approximately 187 staff years, or 62 percent, in export field offices and an additional 3 staff years in other GIPSA offices. This equates to a total reduction of 56 percent of GIPSA's staff years.

| **Fiscal Year 2007 Staffing Levels for Grain Inspection and Weighing Program** | | | | |
|---|---|---|---|---|
| **Location** | **FY 2007 Staffing Levels (FTE)** | **Minimum Staffing Level to Support Contracting** | **Change in Staffing Levels (FTE)** | **Staff Reduction (Percentage)** |
| **Total Export Field Offices** | 301.91 | 115 | -186.91 | -62% |
| *New Orleans* | 185.91 | 58 | -127.91 | -69% |
| *League City* | 54.80 | 23 | -31.80 | -58% |
| *Portland* | 45.92 | 17 | -28.92 | -63% |
| *Toledo* | 15.28 | 17 | 1.72 | 11% |
| **All other GIPSA Offices** | 36.16 | 33.14 | -3.02 | -8% |
| **TOTAL GIPSA FTE** | 338.07 | 148.14 | -189.93 | -56% |

The following tables provide detailed information about the actual fiscal year 2007 Federal staff years compared to projected staff years under a full contracting scenario, by office. The 2007 Federal staff years are based on the actual Federal employee hours paid by the related funding accounts. The hours are converted to a "full-time equivalent" by obtaining the sum or total hours paid to employees by the funding account. The sum is then divided by 2,080 hours (40 hours per week times 52 weeks in a year) to convert employee hours paid to a full staff year of work. Paid hours include hours in pay status, which include annual and sick leave used by employees during the year, as well as overtime hours.

| 2007 FEDERAL STAFF YEARS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Funding Accounts** | **520** | **530** | **570** | **580** | **560** | **600** | **610** | **700** | **Total** |
| **GIPSA FTEs** | **338.07** | **13.65** | **40.74** | **23.35** | **54.41** | **43.52** | **38.14** | **141.05** | **692.93** |
| Administrator and Staff | 0.65 | 0.27 | 0.14 | 0.11 | 0.17 | 0.15 | 0.11 | 1.59 | 3.19 |
| Civil Rights Staff | 2.68 | 0.10 | 0.41 | 0.18 | 0.44 | 0.36 | 0.32 | 1.17 | 5.66 |
| Chief Information Officer | 9.86 | 1.05 | 1.22 | 0.98 | 2.24 | 4.15 | 1.93 | 9.74 | 31.17 |
| Mgt. Support Staff | 6.12 | 0.24 | 0.92 | 0.42 | 1.01 | 0.82 | 0.73 | 2.66 | 12.92 |
| Budget and Planning Staff | 2.06 | 0.12 | 0.32 | 0.16 | 0.46 | 0.51 | 0.31 | 1.42 | 5.36 |
| Total OA | **21.37** | **1.78** | **3.01** | **1.85** | **4.32** | **5.99** | **3.40** | **16.58** | **58.30** |
| Deputy Admin. and Staff | 0.97 | 0.43 | 0.26 | 0.24 | 0.27 | 3.34 | 2.20 | 0.00 | 7.71 |
| Office of Intl. Affairs | 0.00 | 0.00 | 0.00 | 0.00 | 5.55 | 0.36 | 0.00 | 0.00 | 5.91 |
| Compliance Division | 0.07 | 0.00 | 0.01 | 0.00 | 15.33 | 0.00 | 0.00 | 0.00 | 15.41 |
| Tech. Services Division | 2.34 | 0.00 | 0.00 | 0.44 | 7.11 | 28.34 | 14.08 | 0.00 | 52.31 |
| Field Mgt. Division | 4.90 | 0.80 | 0.75 | 0.33 | 1.14 | 1.39 | 0.55 | 0.00 | 9.86 |
| Field Offices | **308.42** | **10.64** | **36.71** | **20.49** | **20.69** | **4.10** | **17.91** | **124.47** | **543.43** |
| Cedar Rapids | 0.37 | 1.61 | 0.00 | 0.07 | 3.93 | 0.00 | 0.35 | | 6.33 |
| Grand Forks | 0.00 | 1.60 | 0.00 | 8.99 | 0.50 | 0.00 | 0.00 | | 11.09 |
| Minneapolis | 0.08 | 0.23 | 0.00 | 0.05 | 3.63 | 0.00 | 0.07 | | 4.06 |
| Moscow | 0.01 | 1.39 | 0.00 | 2.14 | 1.75 | 0.00 | 0.01 | | 5.30 |
| Portland | 45.92 | 0.45 | 0.23 | 0.22 | 0.98 | 0.00 | 2.35 | | 50.15 |
| Stuttgart | 1.26 | 0.33 | 20.96 | 0.16 | 0.34 | 0.00 | 0.67 | | 23.72 |
| Toledo | 15.28 | 0.30 | 0.00 | 0.98 | 1.92 | 1.76 | 0.01 | | 20.25 |
| Wichita | 0.41 | 2.45 | 0.00 | 0.45 | 6.32 | 0.00 | 0.36 | | 9.99 |
| New Orleans | 185.91 | 0.03 | 10.85 | 2.88 | 0.03 | 0.00 | 10.52 | | 210.22 |
| League City | 54.80 | 0.25 | 4.59 | 3.39 | 0.04 | 0.00 | 2.64 | | 65.71 |
| Olympia | 0.01 | 0.58 | 0.00 | 0.13 | 1.14 | 0.00 | 0.01 | | 1.87 |
| PPB (includes MSD) | 4.37 | 1.42 | 0.08 | 1.03 | 0.11 | 2.34 | 0.92 | | 10.27 |
| Packers Program | | | | | | | | 124.47 | 124.47 |

*520 – Grain inspection and weighing program*
*530 – Official agency oversight program*
*570 – Rice services program*
*580 – AMA commodity program*
*560 – Compliance program*
*600 – Methods development program*
*610 – Standardization program*
*700 – Packers and stockyards program*

| CONTRACTING SCENARIO -- FEDERAL STAFF YEARS | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Funding Accounts** | **520** | **530** | **570** | **580** | **560** | **600** | **610** | **700** | |
| **GIPSA FTEs** | **148.14** | **13.46** | **41.78** | **24.19** | **54.70** | **42.67** | **38.72** | **142.35** | **506.02** |
| Administrator & Staff | 0.65 | 0.27 | 0.14 | 0.11 | 0.17 | 0.15 | 0.11 | 1.59 | 3.19 |
| Civil Rights Staff | **1.68** | 0.15 | 0.48 | 0.27 | 0.61 | 0.47 | 0.43 | 1.56 | 5.66 |
| Chief Information Officer | 9.86 | 1.05 | 1.22 | 0.98 | 2.24 | 4.15 | 1.93 | 9.74 | 31.17 |
| Mgt. Support Staff | **3.84** | 0.35 | 1.09 | 0.63 | 1.39 | 1.07 | 0.99 | 3.57 | 12.92 |
| Budget & Planning Staff | 2.06 | 0.12 | 0.32 | 0.16 | 0.46 | 0.51 | 0.31 | 1.42 | 5.36 |
| Total OA | **17.92** | **1.93** | **3.18** | **2.12** | **4.89** | **6.40** | **3.77** | **18.09** | **58.30** |
| Dep. Admin. & Staff | 0.97 | 0.43 | 0.26 | 0.24 | 0.27 | 3.34 | 2.20 | 0.00 | 7.71 |
| Office of Intl Affairs | 0.00 | 0.00 | 0.00 | 0.00 | 5.55 | 0.36 | 0.00 | 0.00 | 5.91 |
| Compliance Division | 0.07 | 0.00 | 0.01 | 0.00 | 15.33 | 0.00 | 0.00 | 0.00 | 15.41 |
| Tech. Services Division | 2.34 | 0.00 | 0.00 | 0.44 | 7.11 | 28.34 | 14.08 | 0.00 | 52.31 |
| Field Mgt Division | **5.16** | 0.45 | 1.56 | 0.87 | 0.88 | 0.17 | 0.76 | 0.00 | **9.86** |
| Field Offices | **121.51** | **10.64** | **36.71** | **20.49** | **20.69** | **4.10** | **17.91** | **124.47** | **356.52** |
| Cedar Rapids | 0.37 | 1.61 | 0.00 | 0.07 | 3.93 | 0.00 | 0.35 | | 6.33 |
| Grand Forks | 0.00 | 1.60 | 0.00 | 8.99 | 0.50 | 0.00 | 0.00 | | 11.09 |
| Minneapolis | 0.08 | 0.23 | 0.00 | 0.05 | 3.63 | 0.00 | 0.07 | | 4.06 |
| Moscow | 0.01 | 1.39 | 0.00 | 2.14 | 1.75 | 0.00 | 0.01 | | 5.30 |
| Portland | **17.00** | 0.45 | 0.23 | 0.22 | 0.98 | 0.00 | 2.35 | | 21.23 |
| Stuttgart | 1.26 | 0.33 | 20.96 | 0.16 | 0.34 | 0.00 | 0.67 | | 23.72 |
| Toledo | **17.00** | 0.30 | 0.00 | 0.98 | 1.92 | 1.76 | 0.01 | | 21.97 |
| Wichita | 0.41 | 2.45 | 0.00 | 0.45 | 6.32 | 0.00 | 0.36 | | 9.99 |
| New Orleans | **58.00** | 0.03 | 10.85 | 2.88 | 0.03 | 0.00 | 10.52 | | 82.31 |
| League City | **23.00** | 0.25 | 4.59 | 3.39 | 0.04 | 0.00 | 2.64 | | 33.91 |
| Olympia | 0.01 | 0.58 | 0.00 | 0.13 | 1.14 | 0.00 | 0.01 | | 1.87 |
| PPB (includes MSD) | 4.37 | 1.42 | 0.08 | 1.03 | 0.11 | 2.34 | 0.92 | | 10.27 |
| Packer Program | | | | | | | | 124.47 | **124.47** |

*520 – Grain inspection and weighing program*
*530 – Official agency oversight program*
*570 – Rice services program*
*580 – AMA commodity program*
*560 – Compliance program*
*600 – Methods development program*
*610 – Standardization program*
*700 – Packers and stockyards program*

Approximately $3.8 million of GIPSA's indirect costs are distributed to the program based on staff years. This includes the costs of the Civil Rights Staff, the Management Support Staff, the Office of the Director of Field Management Division, Departmental charges, and an administrative support contract with the Animal and Plant Health Inspection Service. The following table identifies these indirect expenses associated with Federal staff years based on fiscal year 2007 costs.

| Fiscal Year 2007 Costs by Activity and by Program | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Cost Source** | **520** | **530** | **570** | **580** | **560** | **600** | **610** | **700** |
| Civil Rights Staff | $380,363 | $14,614 | $57,492 | $26,177 | $62,631 | $50,747 | $45,608 | $165,330 |
| Mgt. Support Staff | $848,387 | $32,596 | $128,234 | $58,386 | $147,987 | $113,190 | $101,728 | $464,109 |
| Field Mgt. Division | $503,915 | $114,458 | $77,900 | $33,742 | $137,443 | $189,755 | $66,716 | |
| Total, APHIS Support | $625,156 | $23,993 | $94,477 | $43,030 | $96,466 | $78,236 | $70,322 | $257,920 |
| Total, Dept. Charges | $1,435,757 | $55,162 | $217,054 | $98,834 | $224,980 | $182,337 | $163,878 | $550,324 |
| Total | **$3,793,578** | $240,823 | $575,157 | $260,169 | $669,507 | $614,265 | $448,252 | $1,437,683 |

*520 – Grain inspection and weighing program*
*530 – Official agency oversight program*
*570 – Rice services program*
*580 – AMA commodity program*
*560 – Compliance program*
*600 – Methods development program*
*610 – Standardization program*
*700 – Packers and stockyards program*

The costing model developed by the consulting firm redistributed these expenses across the various GIPSA programs based on the scenario's new assessment of staffing levels (Attachment 5). The following table reports the recalculated costs of these activities by program based on reduced staffing levels.

| Calculated Costs Based on Revised Federal Staff Year Levels | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Cost Source** | **520** | **530** | **570** | **580** | **560** | **600** | **610** | **700** |
| Civil Rights Staff | $235,079 | $21,364 | $66,299 | $38,391 | $86,801 | $67,705 | $61,447 | $225,879 |
| Mgt. Support Staff | $554,677 | $50,409 | $156,434 | $90,584 | $204,809 | $159,753 | $144,985 | $532,969 |
| Field Mgt. Division | $588,531 | $51,535 | $177,804 | $99,243 | $100,212 | $19,858 | $86,747 | |
| Total, APHIS Support | $512,074 | $46,537 | $144,419 | $83,626 | $98,486 | $76,820 | $69,719 | $257,920 |
| Total, Dept. Charges | $974,514 | $88,563 | $274,839 | $159,147 | $289,940 | $226,155 | $205,250 | $709,917 |
| Total | $2,864,875 | $258,407 | $819,795 | $470,990 | $780,246 | $550,291 | $568,147 | $1,726,685 |
| Total Cost Shift | **$-928,703** | $17,584 | $244,638 | $210,821 | $110,739 | $-63,974 | $119,895 | $289,002 |

*520 – Grain inspection and weighing program*
*530 – Official agency oversight program*
*570 – Rice services program*
*580 – AMA commodity program*
*560 – Compliance program*
*600 – Methods development program*
*610 – Standardization program*
*700 – Packers and stockyards program*

The reduced costs in the grain inspection and weighing program (520) and the methods development program (600) are the result of a new overall distribution of the percentage of staff years projected to work in each program. Based upon the distribution methods used in the past, other accounting funds, including the Packers and Stockyards Program, would incur cost increases.

Specific to the grain inspection and weighing program (520), a 62 percent reduction in Federal staff at export field offices would result in a potential indirect cost savings of $928,703 or $0.0121 per metric ton, based on 2007 export levels of 76.5 million metric tons. Based on the $24.2 billion value of grain exported in 2007, the approximately $900,000 in savings in indirect expenses represents approximately 0.0038 percent of the grain export market value for that year.

Using contractors instead of Federal personnel to deliver export inspection and weighing services may reduce GIPSA's direct pay costs as staffing levels decline. There would, however, be a negligible impact on indirect costs, defined as required payments for Departmental and other support programs and the cost of GIPSA-wide support staffs. These total costs remain unchanged despite decreased staffing levels, so the costs would only be redistributed across GIPSA, not eliminated.

## POTENTIAL CHALLENGES OF CONTRACTING AT EXPORT

### Contractor Staffing

Ensuring the continued movement of U.S. grain exports is critical to the national economy, to the financial stability of the U.S.'s grain sector, and to global food security. The contracting pilot study indicated that the private sector would have to implement significant strategic human capital initiatives to ensure that skilled inspectors and technicians are available to meet service demands. Despite positioning contractors at export locations that offered manageable workloads, GIPSA was repeatedly called upon to provide direct technical and logistical support to the contractors in the study, and provided services when the contractor faced staffing shortages due to workload spikes. If contracting were implemented at export, GIPSA staffing levels would decrease, with oversight personnel accounting for the majority of field staffing. GIPSA would not be appropriately staffed to immediately provide inspection services, nor could the process of installing a new contract service provider be completed quickly enough to preclude potential marketing interruptions.

The evaluation of third-party service providers at export clearly demonstrated that there is a limited supply of qualified inspectors available to contractors who are prepared to deliver inspection and weighing services in export port locations.

In Milwaukee, the contractor hired veteran inspectors who had formerly worked for the State agency and were able to immediately provide service to the export grain company. In contrast, the contractor in Toledo was only able to initially staff its operations by hiring GIPSA employees. None of the hires were experienced inspectors, weighers, technicians, or samplers, and all had limited export service experience. The contractor later hired staff from an established official agency that brought some technical knowledge but had no experience in export vessel operations.

Unlike other professionals, grain inspectors are developed via technical training and hands-on experience from within the official inspection and weighing program and not by other external educational sources. GIPSA invests a minimum of 2 years to develop a qualified inspector who is able to both inspect grain, and learn and understand the context of the procedures and regulations for sampling, testing, and analyzing grain for export. An export inspector also clearly understands the fundamentals of statistically sound sampling principles; comprehends the Cu-Sum Plan, the primary process for determining acceptance or rejection of sublots during loading; and must be fully versed in GIPSA policies, procedures, regulations, and legislative authorities. GIPSA or Delegated State personnel would be the only immediate source of such specialized technical capabilities. Seventy percent of that available candidate pool is currently retirement-eligible with 30 years of Federal service.

GIPSA actively solicited the availability of potential contractors who could meet service demands in export markets. On April 7, 2008, GIPSA published a Request for Information (RFI) on the Federal Business Opportunities website to determine the depth and ability of potential contract service providers. Specifically, the RFI solicited information from contractors potentially interested in serving export elevators in New Orleans, Louisiana; League City, Texas; and Portland, Oregon, including their plans for finding and hiring qualified staff. GIPSA sought parties interested in providing both full service and/or labor to GIPSA. GIPSA sent information regarding the solicitation, which was open for 30 days, to all official agencies and all contractors who had previously expressed interest in contract opportunities with GIPSA.

The following table summarizes the responses to the RFI as well as those companies who applied under the pilot study. (Attachment 6)

| | **Companies Applying for Original Pilot Study** | | | | **Companies Responding to RFI** | | |
|---|---|---|---|---|---|---|---|
| **Company** | **California** | **Milwaukee** | **Chicago/Portage** | **Toledo** | **New Orleans** | **League City** | **Portland** |
| California Agri Inspection Company | ✓ | | | | | | ✓ |
| Champaign-Danville Grain Inspection | | ✓ | | | | | |
| Eastern Iowa Grain Inspection | | ✓ | ✓ | | | | |
| Gulf Country Grain Inspection | | | | | ✓ | ✓ | ✓ |
| Intercontinental Grain Inspection | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| International Cargo Services | | ✓ | ✓ | ✓ | | | |
| Intertek USA | | | | | ✓ | ✓ | ✓ |
| Michigan Grain Inspection | | | | ✓ | | | |
| National Quality Inspection | | | | | | | ✓ |

Three companies expressed an interest in providing services in the New Orleans and League City areas. One company was interested in providing supplemental labor to GIPSA and not direct labor to the export grain companies. The other two respondents indicated they were interested in providing supplemental labor to GIPSA or providing services directly to the exporters. They noted that providing supplemental services to GIPSA would develop their staff of inspectors, weighers, technicians, and samplers. However, both companies indicated they were not in a position to provide services to all export companies in the port area, and that capability could only be achieved over time. They also indicated that GIPSA employees retiring from New Orleans and League City would be an outstanding source of qualified personnel and would be essential to their success.

Five companies expressed an interest in serving the Portland area, including three that had expressed interest in the New Orleans and League City areas. These three companies indicated they would take the same approach in Portland as they would in the other areas; namely, they would gradually build a skilled staff over time by relying on hiring former GIPSA employees.

The other two companies interested in providing services in Portland varied in their approach to contract services. One company wanted to supply supplemental labor to GIPSA, draw upon former GIPSA employees to build a trained and qualified staff, and position itself to provide full services at all facilities in Portland. The fifth company indicated they were adequately staffed with experienced employees and ready to immediately provide services in the Portland export market. This company currently provides unofficial services to the export grain companies in Portland and asserted that the transition to official services would be a simple process. Providing official versus unofficial services requires extensive and specific technical and procedural knowledge, including knowledge of export rules, inspection and weighing procedures, grain handling systems, and grain sampling processes. Such expertise can only be gained over a period of time from technical training, study, and hands-on experience.

The potential contractors who responded to the RFIs for New Orleans, League City, and Portland identified the availability of qualified inspectors and the importance of technical training as critical factors to their ability to provide export services. None of the contractors has established long- or short-term technical training programs for their employees.

Responses to the RFI indicate that contractors propose to rely on GIPSA to train their personnel. GIPSA’s technical training program includes ongoing formal training in the field office, supplemental on-the-job experiences and mentoring by highly qualified and experienced inspectors, and ongoing monitoring of inspectors to ensure their accuracy and capability. Many components of this training program would be unavailable if GIPSA shifted its resources and focus from service provision exclusively to an oversight role.

## Service Provision

It is important to note that, under the Act, if a contractor were unable to provide export services for any reason, including insufficient staffing, GIPSA would be immediately required to become the service provider. If contractors were used to provide export services, as attrition depletes the GIPSA workforce and contractors hire available GIPSA retirees, GIPSA will be unable to maintain or quickly restore a staff of adequate size or expertise to provide services in lieu of a contractor.

## Limited Cost Savings

The supplemental labor pilot found that the cost of contract technicians and samplers exceeded the costs for Federal staff in these positions by $3 to $6 per hour for samplers, technicians, and weighers.

The export service pilot provided opportunities for cost savings to customers in some instances. In Milwaukee, the overall cost to the exporter over the pilot period was $0.63 per metric ton. GIPSA's estimated direct service cost at this location is $0.53 per metric ton. In Toledo, the overall cost to the exporter over the pilot period was $0.39 per metric ton. GIPSA's estimated direct service cost to the exporter would have been $0.45 per metric ton. However; the contractor in Toledo, unlike the contractor in Milwaukee, did not have any initial capital investment costs in inspection equipment because they used the GIPSA equipment already in place at the export inspection labs.

The pilot also was designed to assess whether contractors would capitalize on the opportunity to expand the services they provided to the grain export companies by providing service on in-bound or nonexport grain. Contractors did not expand services to derive greater efficiencies.

In terms of reducing indirect costs by reducing staffing levels, GIPSA determined that a 62 percent reduction in Federal staff at export field offices would result in a 24 percent reduction in indirect cost savings, which equates to a potential cost savings of $0.0121 per metric ton.

# CONCLUSION

Today, GIPSA provides independent, third-party services in the sole interest of facilitating the marketing of U.S. grain in domestic and international markets. Each year, the official inspection system inspects and weighs over 99 percent of the approximately $20 billion (average) of U.S. grain shipped to customers around the world. The mandatory inspection of U.S. grain exports benefits the entire grain marketing chain, from farm gate to export.

GIPSA has historically used contract labor to supplement its Federal workforce to provide cost-effective official inspection and weighing services. For decades, GIPSA has augmented its current Federal workforce with contract samplers to provide services under the AMA.

In 2006, GIPSA instituted a pilot study to explore other avenues for the use of contractors in the official grain inspection and weighing system. GIPSA's pilot focused on the use of contractors to provide both supplemental and direct service provision at export. In keeping with congressional direction, GIPSA studied using its existing contracting authority with the goals of improving the competitiveness of the U.S. grain industry, maintaining the integrity of the Federal grain inspection system, and providing benefits to employees who may be impacted.

Based on the findings of GIPSA's pilot study and other available information, GIPSA concludes that the use of contractors did not provide additional savings or efficiencies that would enhance the competitiveness of U.S. grain exports in the global market.

GIPSA identified further challenges to the effective use of contractors, including:

- Contractors did not demonstrate that there is an adequately skilled workforce available to them to perform export inspection and weighing services. Contractors would be challenged to hire and maintain an adequately skilled workforce to meet long- and short-term service demands. Contractors are not currently positioned to provide fully trained staff who can perform the services currently performed by GIPSA staff. Certification and weighing of grain at export facilities require skills not normally found in the labor force. GIPSA invests a minimum of 2 years of training before employees are allowed to grade and weigh grain at export facilities.

- Shifting to contractors at export would remove the GIPSA service-provision safety net. GIPSA would be challenged to fulfill its legal mandate to provide services if a contractor could not because GIPSA's workforce staffing levels would decrease and competencies would shift from inspection to oversight expertise. Thus, GIPSA would be put into a position in which it would not have sufficient staff to provide export services, thereby allowing for potential service disruptions.

The information gathered during the pilot program does not support significant changes to GIPSA's use of contract labor.